Employment Patterns and Unemployment Insurance

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Theme

This briefing highlights the main results of an evaluation study that examines the possible influence of the Variable Entrance Requirement (VER) of the unemployment insurance system on job duration.

Of particular interest is the "moral hazard" problem involved in the possibility that employers and employees take actions leading to job separations once the VER has been met, thereby qualifying the worker for unemployment insurance benefits.

This study is a component of a comprehensive evaluation of the Regular UI Benefits program in Canada.

Summary information and methodology

The empirical work, based entirely on the data of the Labour Market Activity Surveys (LMAS) of 1986-87 and 1988-90, explores the pattern of job duration across provinces and over the time span 1986-1990.

In addition to the thematic hypothesis mentioned above, it examines the type of job spells, the duration of new jobs as well as that of the stock of jobs and the association of job duration with a variety of personal and job characteristics. These can be highlighted as follows:

- 70 percent of the job holders in the 1986-87 survey and 57 percent of those in the second survey hold only one job.
- The average duration of jobs completed is 100 weeks in 1986 and 95 weeks in 1988.
- The stock of jobs extant at the end of 1990 has an average job expectancy of 727 weeks, as opposed to 753 weeks at the end of 1987.
- Not surprisingly, age is highly correlated with job duration. The younger the worker, the shorter the duration.
- Education is associated in a U-shaped manner with job duration. Other things being equal, the longest job durations are found among high school graduates. Individuals with less education have shorter jobs, while university graduates have even shorter job durations.

- Firm size, unionisation, and coverage by a collective bargaining agreement are seen to coincide with longer job duration.

In addition to descriptive statistics, the study uses econometric methods to deal with the more complex and subtle issues. For example, the impacts of UI parameters on job duration are estimated by survival analysis .

Econometric findings

In the 1986-87 LMAS survey, the empirical results indicate that the conditional probability of leaving employment nearly doubles when the VER is satisfied. Job durations at and just after the VER are, therefore, shorter than they would otherwise have been. For example, separations at ten weeks of employment once the VER has been met would have occurred eight weeks later.

In the 1988-90 period, the effect is less pronounced. The probability of leaving employment at the VER is 50-60 percent higher than it would otherwise have been.

The study uses the information available in the LMAS surveys to examine whether any light can be shed on the question of whether separations at the VER are employer- initiated (layoffs) or employee-initiated (quits).

The reasons recorded for final separations can be grouped into layoffs and quits. They are about equally important. However, if the definition of layoffs is augmented to include seasonal separations, then layoffs become the dominant category.

A further issue is whether employers effectively place workers on UI for a period of time not exceeding entitlement and re-hire them later.

The overwhelming majority of individuals that returned to work within the data's sample period had a new employer. The study cannot find any conclusive evidence that employers lay off and re-hire employees following the receipt of UI benefits in the final separations data. However, this type of behaviour may be present within what LMAS categorises as a job.

A significant moral hazard problem appears to exist. Once the VER has been met, some employees quit anticipating that they may qualify for UI benefits; some employers manage their labour pool so that layoffs can occur at or after the VER.

More disaggregated work, based on provincial equations for the conditional probability of a job separation, confirms the national results on the significance of the VER. As is the case for Canada as a whole, the provincial results indicate much larger responses at the VER during 1986-1987 than in the period 1988-1990.

The information in the LMAS pertinent to non-standard employment and concurrent employment is also examined.

There is, in general, no convincing evidence that non-standard employment becomes more prevalent during the five years (1986-90) covered by the LMAS surveys.

There is some evidence of growth in the prevalence of concurrent jobs, defined as an overlap of at least one week. During 1986-87, some 12.4 percent of the individuals hold one concurrent job, as opposed to 18 percent in the 1988-90 period.

Job concurrence is a characteristic of provinces which are relatively better off and is more prevalent in Ontario than in the Maritime provinces. Part-time jobs are much more likely than full-time jobs to be held concurrently.

Policy messages

In summary, there is considerable evidence that workers and employers do respond to the VER setting.

Employees initiate a number of quits and employers initiate an even larger number of layoffs at the point that the VER is met.

From a policy point of view, it seems clear that lengthening the VER will prolong employment duration, though it may discourage marginal labour force attachments and may reduce turnover.

The majority of jobs ending at the VER are layoffs or seasonal separations rather than quits. This suggests that experience-rating employer premia is worth considering.

Biographical notes

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Copies of the full technical report (when finalised) and further copies of this summary are available from:

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